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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The US has decided to relax its opposition somewhat to requests from Eastern European air carriers for commercial flights over US occupation zones during consideration of the British contention that Western European security no longer requires a defensive posture vis-a-vis Satellite civil aviation. This step has been taken in the interest of re-establishing a united front toward the Soviet bloc in this respect. (Item No. 1, A)

Recent French Cabinet decrees establishing special financial controls over the expenditures of the French National Railways (SNCF) indicate a growing Government concern over the burden imposed on the national budget by continuing railway deficits. All proposals relating to operating and investment budgets and other important fiscal matters must now be submitted to a control mission at SNCF headquarters reporting directly to the Minister of Finance. The Government will probably support economies in the railway budget that may be indicated by the findings and recommendations of the control mission. For reasons of political expediency, however, the Assembly may not be willing to approve any drastic implementation of railway economy proposals when the subject of deficits in the nationalized industries is debated in October. (Item No. 2, B)

A US steamship agent in Shanghai has been approached by a Chinese group, including the President of Aurora University, with a plan for operation of US vessels to Shanghai. The group asserts that a Nationalist safe conduct guarantee can be obtained for movement to Shanghai of two US-flag vessels per month for three months. (Item No. 3, B)

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A major improvement in the Communist oil situation in the Far East is being implemented with direct participation of US-flag tankers, several of which are effectively controlled by foreign interests. A number of US and foreign-flag tankers have been chartered by Chinese or Soviet interests to transport gasoline and kerosene from Constanza, Rumania, to Shanghai and Dairen, and some of the vessels are already engaged in this traffic. The combined capacity of these vessels is sufficient to sustain a movement of oil products which would be of considerable military significance. (Item No. 4, A)

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SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

1. The US has decided to relax its opposition somewhat to requests from Eastern European air carriers for commercial flights over US occupation zones during consideration of the British contention that Western European security no longer requires a defensive posture vis-a-vis Satellite civil aviation. This step has been taken in the interest of re-establishing a united front toward the Soviet bloc in this respect.

Difficulty in enforcing strictly the US-UK ban on any increase in Satellite commercial air penetration of Western Europe has been accentuated, not only by the UK's willingness to approve special flights from time to time, but also by a similar attitude on the part of various Western European countries not formally party to the US-UK agreement. Increased trade relations between Eastern and Western Europe have induced these countries to admit chartered or irregular aircraft flights from the Satellite States and have tended to generate pressure on the US for a change of policy.

In addition to diplomatic flights, requests for air transit of US occupation zones by Satellite carriers have included the movement of: (1) delegations to trade expositions and commercial conferences; (2) competitors in international sporting events; and (3) perishable food-stuffs. Frequent rejection by the US of such applications, particularly of foodstuffs, has caused irritation in the consignee countries.

Eastern and Western European airlines are ready to take immediate advantage of the relaxation of US policy. The new director of the Czechoslovak Airline (CSA) has recently announced that reorganization plans include an increase in non-scheduled special flights to foreign countries. A number of applications from the Yugoslavs for flights over the US Zone Austria, furthermore, are pending.

An increase of East-West flights, on the other hand, may carry some disadvantage, because it will present recurring opportunities for expanding the clandestine importation of aircraft parts and other goods barred to the Satellites under embargoes imposed by the OEEC countries, and will accentuate the problem of enforcement of export controls by these countries. Reports indicate that CSA is continuing to surreptitiously accumulate spare parts from Western Europe for its DC-3's and that the Poles, who are seeking to increase scheduled flights to Paris, are also attempting to set up undercover agents in Switzerland and France for procurement of aviation equipment and instruments urgently needed by the civil airline LOT and the Polish Air Force. (Secret)

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SURFACE TRANSPORTATION

2. Recent French Cabinet decrees establishing special financial controls over the expenditures of the French National Railways (SNCF) indicate a growing Government concern over the burden imposed on the national budget by continuing railway deficits. All proposals relating to operating and investment budgets and other important fiscal matters must now be submitted to a control mission at SNCF headquarters reporting directly to the Minister of Finance. While the mission does not have veto authority over the decisions of the SNCF Board of Directors, its recommendations will certainly carry considerable weight.

The National Railways' prospective deficit for 1949, variously estimated between \$80,000,000 and \$150,000,000, results not only from loss of traffic to highway transport, but also from increased expenditures caused by higher prices, wages, and taxes, and from the top-heavy organizational structure of the railways. As revealed by reports of a Commission of Inquiry appointed last year, an excessive number of personnel, especially administrative, and heavy charges for social security payments and pensions to a large number of retired personnel also contribute to the deficit. (Engineers retire at 50 and other railwaymen at 55, ten years earlier than corresponding personnel in the US. For every ten railwaymen in active service in France, there are seven more drawing pensions.) The Commission's report, moreover, criticized the SNCF for its practice of making operational decisions on technical grounds without due regard for economic considerations and cited the existence of a large number of unprofitable branch lines.

One of the first items on the agenda of the French Assembly when it reconvenes in October will be the problem of recurring deficits in the nationalized industries. The Government will probably support economies in the railway budget that may be indicated by the findings and recommendations of the control mission. For reasons of political expediency, however, the Assembly may not be willing to approve any drastic implementation of railway economy proposals. (Confidential)

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3. A US steamship agent in Shanghai has been approached by a Chinese group, including the President of Aurora University, with a plan for operation of US vessels to Shanghai. The group asserts that a Nationalist safe conduct guarantee for movement to Shanghai of two US-flag vessels per month for three months can be obtained. Subject to Nationalist approval of the commodities transported, the vessels would be permitted to carry cargo from Hong Kong to Shanghai, returning to Hong Kong with cargoes consigned to Nationalist interests. The Nationalist Minister of Communications is stated to be implicated in the plan.

If the report is true, and if it is not merely a scheme for personal advantage, it would indicate that the Nationalists are prepared to give the Communists certain merchandise and at least a limited outlet to Hong Kong in order to extricate unspecified cargoes from Shanghai. Although the owners of all vessels are legally free to engage in such a transaction, their participation could involve the US flag in incidents. (Confidential)

4. A major improvement in the Communist oil situation in the Far East is being implemented with direct participation of US-flag tankers, several of which are effectively controlled by foreign interests. A number of US and foreign-flag tankers have been chartered by Chinese or Soviet interests to transport gasoline and kerosene from Constanza, Rumania, to Shanghai and Dairen, and some of the vessels are already engaged in this traffic.

Chartering of US vessels in trade to Soviet or Chinese Communist ports violates no US law and runs contrary to no clearly expressed US policy. It is obvious, however, that the delivery of oil products to areas under complete Soviet or Chinese Communist control is detrimental to US national security. The circumstances surrounding the activity suggest, moreover, that foreign interests can control and operate US vessels by deliberate subterfuge and that the US Government, in the absence of a violation of US law, may be unable to restrain the movement of such US-flag vessels, even though they are engaged in traffic opposed to its security interests.

The background of the transaction is obscure and many details are subject to conflicting reports. Not even the ownership of the US vessels is entirely clear. The US vessels appear to have been assigned to their present activity after a possibly deliberate series of complicated transactions involving bareboat, time, and voyage charters. In these transactions, several Chinese corporations have successively controlled the movements of the vessels and at least one of the tankers is now under outright charter to the Soviet Rumanian Transport Co.

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The USSR has had difficulty in satisfying its petroleum requirements in the Far East in view of the limited production of Sakhalin, inadequate capacity of the Trans-Siberian Railroad, shortages of tank cars, and the small fleet of Soviet tankers. Severe local shortages have induced the USSR to move some oil by barge from the Black Sea to the Maritime Provinces. It now appears, moreover, that the USSR is attempting, through the joint Hungarian company to alleviate the petroleum shortage of the Chinese Communists.

The tankers known to have been chartered in the Communist trade represent the tonnage equivalent of a major part of the entire Soviet-flag tanker fleet and they provide the USSR with the services of modern units which are virtually unequalled for speed and efficiency in its own fleet. The combined capacity of these vessels is sufficient to sustain a movement of oil products which would be of considerable military significance. A concentration of first class tankers in Communist harbors, moreover, might well be an invitation to seizure. (Secret)